

1 (Whereupon, the following
2 proceedings were held out of in
3 camera.)

4 JUDGE HILLIARD: Okay. We're back on the
5 public record.

6 BY MS. LUSSON:

7 Q Mr. Kahle, I'd like to ask you a few
8 questions now focused on Page 22 of your rebuttal
9 testimony where you take issue with Mr. Efron's
10 adjustment to reflect accumulated deferred income
11 taxes in the Company's Rider ICR?

12 A Okay. I'm there.

13 Q Would you agree, first of all, that
14 accumulated deferred income taxes is a source of
15 noninvestor-supplied funds?

16 A Yes.

17 Q Now, as I understand your testimony there,
18 it's your belief that reflecting the accumulated
19 deferred income taxes in Rider ICR could overly
20 complicate the annual reconciliation of the rider.

21 Is that your testimony?

22 A That's part of my testimony, yes.

1 Q Okay. And one of the complications you
2 indicate there -- or the perceived complication would
3 be the timing of the possibility of the Company
4 filing a rate case; is that right?

5 A Yes.

6 Q And you indicate that the Company would
7 need to reflect in its 2014 team test year the amount
8 of ADIT related to its baseline level of investment
9 for cast iron and ductile iron replacement not
10 subject to cost recovery under Rider ICR; is that
11 right?

12 A Yes.

13 Q And you indicate that calculation could be
14 effected by issues and disallowances still under
15 litigation in the 2013 reconciliation proceeding; is
16 that right?

17 A Yes.

18 Q All of those potential complications also
19 apply to the annual reconciliation of plant additions
20 themselves, don't they, that occur in the Rider ICR
21 reconciliation?

22 A It could.

1 Q In other words, the plant -- in annual ICR
2 reconciliations, plant additions would have to be
3 reconciled and if there is a rate case filed using a
4 2014 test year, that could complicate the
5 reconciliations of those plant additions.

6 Would you agree?

7 A I see that happening, yes.

8 MS. LUCKEY: Dan, could we have you speak a
9 little bit louder for us.

10 THE WITNESS: Sorry.

11 BY MS. LUSSON:

12 Q Now, I'd like to turn your attention to the
13 accumulated deferred income tax issue related to the
14 repair allowance.

15 Looking at Page 23 of your testimony,
16 there you address the 50/50 sharing of the risk --
17 alleged risk association -- associated with ADIT on
18 the repair allowance; is that correct?

19 A Yes.

20 Q And you've indicated that you do not
21 disagree that accumulated deferred income taxes are
22 not investor-supplied funds, right?

1 A Say that again.

2 Q You've indicated that you agree that
3 accumulated deferred income taxes are not
4 investor-supplied funds, correct?

5 A Correct.

6 Q And would you also agree that increases to
7 the balance of accumulated deferred income taxes are
8 deducted from plant in service in the determination
9 of rate base?

10 A Yes.

11 Q Has the Company actually provided anything
12 that would establish that the 50/50 ratio is the
13 appropriate one as opposed to, say, 70/30 or 60/40?

14 A I haven't seen a discussion of any other
15 percentage, no.

16 Q Have you seen anything in the Company's
17 testimony that would establish that there is a
18 significant risk that the Internal Revenue Service
19 will, in fact, disallow the income tax deductions
20 related to the tax accounting method change?

21 That's the end of my question.

22 A There's certainly a lot of testimony about

1 the risk; but as far as the likelihood of the IRS
2 making an adverse decision, I don't recall having any
3 discussion of that.

4 Q And have you seen anything in the Company's
5 testimony that would establish that there's a
6 significant risk that the -- that such a disallowance
7 is any greater than the risk of a disallowance
8 associated with any other income tax deduction?

9 A I don't recall any discussion like that.

10 Q And can you cite any -- first let me ask,
11 would you agree that there's some degree of risk
12 associated with any balance of accumulated deferred
13 income taxes?

14 A You say some risk?

15 Q Yes.

16 A I suppose that's true.

17 Q Can you cite any case where the Commission
18 has approved a 50/50 sharing of the noninvestor funds
19 provided by accumulated deferred income taxes?

20 A I haven't done exhaustive research, but I
21 can't think of any.

22 Q If the Commission approved the 50/50

1 sharing that the Company has proposed in this case,
2 would you agree that that might incent other
3 utilities to request in future rate cases a 50/50
4 sharing of accumulated deferred income taxes no
5 matter how remote a risk of disallowance is?

6 A It might be a little bit too much
7 speculation for me, but -- to answer.

8 Q Would you agree it's possible?

9 A All things are possible; so, yes.

10 MS. LUSSON: Okay. Thank you, Mr. Kahle.

11 I have no further questions and I'd
12 move for the admission of AG Cross Exhibits 11 and
13 12.

14 JUDGE HILLIARD: Hearing no objection, AG Cross
15 Exhibits 11 and 12 will be admitted.

16 (Whereupon, AG Cross Exhibit
17 Nos. 11 and 12 were admitted
18 into evidence.)

19 CROSS-EXAMINATION

20 BY

21 MS. SCARSELLA:

22 Q Good afternoon, Mr. Kahle. My name is

1 Carla Scarsella. And I'm one of the attorneys
2 representing the Utilities in this proceeding.

3 I have a couple of questions for you
4 this afternoon and I'm first going to start with cash
5 working capital.

6 A MS. SCARSELLA, you're completely off the
7 camera.

8 Q Oh. One moment, please.

9 A Much better. Thank you.

10 Q Give me a moment here.

11 All right. All right. Let's start
12 with cash working capital.

13 Now, the Utilities have proposed to
14 include an asset and rate base that reflects the
15 level of cash working capital required to finance
16 their day-to-day operations, correct?

17 A By the calculation, yes. Correct.

18 Q In order to measure the appropriate level
19 of cash working capital, the Utilities have performed
20 and presented a lead/lag study; is that correct?

21 A Yes.

22 Q Do you agree that with the exception of

1 pass-through taxes, you and the Utilities' witness,
2 Hengtgen, agree as to the methodology used to prepare
3 the lead/lag study that the Utilities propose in this
4 proceeding?

5 A Yes.

6 Q All right. Let's start with expense leads.

7 In your direct testimony, you
8 initially agreed with Mr. Hengtgen's proposed lead
9 days for pass-through taxes; is that correct?

10 A Yes.

11 Q However, in rebuttal testimony, you revise
12 your calculation for two of the Utilities
13 pass-through taxes; is that correct?

14 A I think it was three.

15 Q Three. All right.

16 Can you refer to your rebuttal
17 testimony, Page 8, Lines 167 to 168.

18 A I'm there.

19 Q I need to get there.

20 All right. Now, there you state at
21 those lines, Mr. Hengtgen offered a revised number of
22 lead days that Peoples Gas collects these

1 pass-through taxes before remitting; is that correct?

2 A Yes.

3 Q Can you refer me to where in Mr. Hengtgen's
4 testimony he revised his calculation for those three
5 pass-through taxes.

6 And I believe Mr. Allen has a copy of
7 his rebuttal if you need it.

8 A I was referring to his Page 21, Lines 442
9 through 449.

10 Q All right. Now, the -- that response, the
11 question -- that response is -- that answer, I should
12 say, is in response to the question on Line 441; is
13 that correct?

14 A Yes.

15 Q And that question is, Do these proposals by
16 Mr. Kahle reflect reality?

17 Did I read that correctly?

18 A Yes.

19 Q And what's Mr. Hengtgen's response?

20 It's "no"; is that correct?

21 A The first word is "no," correct.

22 Q All right. And then in the rest of that

1 answer, doesn't he give an example of why he
2 disagrees with your proposal?

3 A Yes. In my -- I interpreted this as being
4 an altered calculation of the expense lead days.

5 Q And if you look at Line 443, though, it
6 says, Even if all the amounts were collected on the
7 first day of the month, which they are not.

8 So that's an example, isn't it, it's
9 not a proposal?

10 A Yes.

11 Q So Mr. -- in fact, Mr. Hengtgen didn't
12 revise his lead days, did he?

13 A No, his schedules he did not.

14 Q All right. All right. Let's go to revenue
15 lags.

16 Another area of disagreement you have
17 with Mr. Hengtgen and his study is that you propose
18 to use zero lag days for pass-through taxes for both
19 Utilities; is that correct?

20 A That's correct.

21 Q Now, do you dispute the fact that Utilities
22 need cash on hand to remit these taxes?

1 A No.

2 Q However, it's your position that because
3 pass-through taxes are not utility service, there is
4 no revenue lag between a utility service and the
5 receipt of cash; is that correct?

6 A Correct.

7 Q Now, in the Utility's last rate case,
8 Docket Nos. 09-0161 and 0162, did the ICC reject
9 Staff's proposal to use zero lag days for
10 pass-through taxes?

11 A Yes, they did.

12 MS. SCARSELLA: Mr. Allen, can you please hand
13 Mr. Kahle the Commission's order from the Utility's
14 last rate case.

15 THE WITNESS: I have it.

16 BY MS. SCARSELLA:

17 Q You have it. All right.

18 MS. SCARSELLA: Your Honors, would you like --
19 I have copies.

20 JUDGE HILLIARD: Please. Are you going to mark
21 this or are you...?

22 You're not going to mark this, right?

1 MS. SCARSELLA: No, I'm not.

2 BY MS. SCARSELLA:

3 Q Mr. Kahle, can you turn to Page 19 -- I

4 didn't print out the whole order so we could save a

5 few trees since it was nearly 300 pages, but I

6 printed out the first 30 pages.

7 Can you turn to Page 19 for me.

8 A I have it.

9 Q All right. Would you agree with me that

10 that's the section that begins cash working capital

11 for pass-through taxes?

12 A Yes, it is.

13 Q All right. Can you now go to Page 24.

14 A I'm there.

15 Q Would you agree that that's the "Commission

16 analysis and conclusion" section for the pass-through

17 taxes?

18 A Yes, I do.

19 Q All right. Now, if you look at the first

20 full paragraph under the "Commission analysis and

21 conclusion" section, the third sentence states, If

22 shareholders make a payment because the money has not

1 yet been received from rate payers, then this amount
2 is appropriately contained in the calculation of cash
3 working capital.

4 Did I read that correctly?

5 A Yes.

6 Q Do you disagree with the Commission's
7 statement?

8 A No, I do not.

9 Q In both your direct and rebuttal testimony,
10 you mention that in Nicor's most recent rate case,
11 Docket No. 08-0363, the Commission approved zero lag
12 days for pass-through taxes; is that correct?

13 A Yes.

14 Q If you can refer again to the last sentence
15 of that first full paragraph under the "Commission
16 analysis and conclusion" section, does the Commission
17 state, It is to be expected that each Utility's
18 lead/lag study will show different results and, thus,
19 the decision of Nicor 2008 is not controlling.

20 Is that correct?

21 A Yes.

22 Q I'm sorry?

1 A That's what it says.

2 Q Okay. Thank you.

3 Finally, still referring to Page 24 of
4 the Commission's order, in the last sentence of the
5 second paragraph under the "Commission analysis and
6 conclusion" section, the Commission states, It
7 appears that Staff's approach improperly ignores the
8 time between when customers are billed for
9 pass-through taxes and when pass-through taxes are
10 remitted to the Utilities; is that correct?

11 A Yeah, that's what it says.

12 Q Now, did the facts surrounding the
13 Utility's payment of the pass-through taxes in 2009
14 change between when the Commission entered its order
15 and when the Utilities filed its rate case?

16 A I'm not aware of any substantial changes.

17 Q Are you -- you said not any substantial,
18 are you aware of any changes or...?

19 A Well, some of the calculations have
20 changed; but...

21 Q But the terms upon which the Utility has to
22 remit pass-through taxes has not changed since the

1 last rate case?

2 A Correct.

3 Q All right. Let's move on to energy
4 assistant and renewable energy programs.

5 Included in pass-through taxes are
6 charges that the Utilities collect from customers
7 under Illinois statute for energy assistant and
8 renewable energy programs; is that correct -- or at
9 least the energy assistant charges?

10 A Right.

11 Q All right. Do you agree that the Illinois
12 statute for these charges state that the charges
13 assessed by electric and gas utilities shall be
14 considered a charge for public utility service?

15 A Yes, that's correct.

16 Q Since these charges are defined as a
17 utility service, did you assign them revenue lags?

18 A No, I did not.

19 Q All right. Can you refer to Page 10 of
20 your rebuttal testimony, Lines 202 to 203.

21 A Okay.

22 Q Unfortunately, I'm lagging behind you.

1 Hold on. Let me make sure I have it before me.

2 All right. There you state, The
3 Company's process -- the Company's process of
4 pass-through taxes is in the same manner as the
5 Utilities represented in those other recent dockets.

6 Did I read that correctly?

7 A Yes.

8 Q And by "those other recent dockets," do you
9 mean the Nicor 2008, which we just discussed, the
10 Ameren Illinois 2009 order, and the ComEd 2010 order?

11 A Yes.

12 Q Now, Nicor -- if you know, Nicor is a gas
13 utility; is that correct?

14 A That's correct.

15 Q And their service territory doesn't overlap
16 either Peoples Gas or North Shore's, does it?

17 A Not to my knowledge.

18 Q Ameren is a combined electric and gas
19 utility; is that correct?

20 A Yes, that's correct.

21 Q And, again, their service territory doesn't
22 overlap the Utility's service territory, does it?

1 A Not that I'm aware of.

2 Q And ComEd as is an electric utility, but
3 its service territory does overlap the Utility's
4 service territory; would you agree?

5 A Yes.

6 Q Now, did you compare each of the local laws
7 and municipal agreements that Nicor, Ameren and ComEd
8 are subject to and compare them to the laws and
9 agreements that the Utilities are subject to?

10 A No, I did not.

11 Q Okay. That's -- that's it for cash working
12 capital.

13 I do have a couple of questions,
14 though, regarding ADIT and the tax -- the tax change
15 proposals that the Utilities have made, the 50/50
16 sharing.

17 Accumulated deferred income taxes,
18 what is that?

19 A Pardon?

20 Q Can you tell me what accumulated deferred
21 income taxes is.

22 A Basically the difference between book taxes

1 and tax liability.

2 Q So it represents amounts that the Utilities
3 are obligated to pay in taxes in the future until
4 book -- until booked appreciation catches up?

5 A Generally speaking, yes.

6 Q So is that investor-supplied funds or is it
7 something else?

8 A I think it's generally considered a loan
9 from the government.

10 Q All right. But it is -- it does represent
11 a liability that the Utilities are responsible for?

12 A Yes.

13 Q Now, did you review the direct rebuttal and
14 surrebuttal of John Stabile?

15 A Yes.

16 Q I'm not sure if you have his testimony in
17 front of you or not. I did not give it to Mr. Allen.
18 I don't know if you have it with you offhand.

19 A I may, if I look. I may not have all the
20 pages. I generally only printed out things that I
21 felt concerned me.

22 Q Okay. Actually, if you can turn to his

1 rebuttal testimony.

2 A Okay. I think I have it.

3 Q All right. At Pages 7 -- beginning at

4 Page 7 through 8 and 9, do you agree with me that

5 Mr. Stabile discusses in depth the risks associated

6 with the errs change?

7 A Give me a minute to look at it.

8 What are the pages?

9 Q Please take your time.

10 Pages 7 through 9.

11 A Yes, I agree.

12 Q In fact, if -- on Page 1 -- Page 7,

13 Line 168, do you agree that Mr. Stabile says, Because

14 of the complexity of the issue, it has been suggested

15 by the Treasury Department and the IRS in the

16 preamble of the repropose regulations that

17 individual industries work separately with the

18 confines of the Industry Issue Resolution Program,

19 and then he goes on to say that, The industries are

20 now just getting started on resolving this issue in

21 an IIR?

22 A Yes, that's what it says.

1 Q All right. Do you agree with me that the
2 position that the Utilities have taken is at risk if
3 that -- if that IIR process or the subsequent
4 treasury regulations, when they're reissued, come out
5 with a different result?

6 A It could be, yes.

7 Q And have -- have taxpayers -- I mean,
8 has -- have customers benefited by the fact that the
9 Utilities took this position early before the issue
10 is completely resolved?

11 A With the 50/50 split, there's a reduction
12 in rate base. I believe that's considered a benefit
13 to the rate payers.

14 Q All right. So -- but the Utilities could
15 have been conservative, couldn't they, and not
16 elected the tax change and no one -- and customers
17 wouldn't have received a benefit, would you agree?

18 A I suppose they certainly could have been
19 made a different choice.

20 Q And are you familiar with the ComEd
21 proceeding that just ended in the 2010 rate case?

22 A No, I'm not, not in terms of an ADIT.

1 Q All right. Let me -- just one more
2 question, perhaps.

3 And, Mr. Kahle, do you have a tax
4 accounting background at all?

5 A No, I do not.

6 Q And any experience with the Internal
7 Revenue Service or audit?

8 A Well, yes, but -- I had some experience.

9 Q Some.

10 In audit or Internal Revenue Service
11 audits?

12 A Both.

13 Q And have you ever had a client -- and I'm
14 not took looking for any information, but have you
15 ever had a client in position who took a tax position
16 that has not been approved yet by the IRS that's
17 still under consideration?

18 A No, I have not.

19 MS. SCARSELLA: All right. I have no further
20 questions.

21 JUDGE HILLIARD: Okay. Any redirect?

22 MS. LUCKEY: I think we need a moment to talk

1 to Staff.

2 JUDGE HILLIARD: Okay.

3 MS. LUCKEY: 10 minutes.

4 JUDGE HILLIARD: How many?

5 MS. LUCKEY: 10.

6 JUDGE HILLIARD: Okay.

7 (Whereupon, a recess was taken.)

8 (Change of reporter.)

9 JUDGE HILLIARD: Is there any redirect.

10 MS. LUCKEY: Nothing else on redirect.

11 MR. LANNON: Your Honor, Staff would call Mike

12 Ostrander.

13 JUDGE HILLIARD: Mr. Ostrander, you have been

14 previously sworn, I believe; is that correct?

15 THE WITNESS: That's correct.

16 (Witness previously sworn.)

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1 MICHAEL OSTRANDER,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:
4 DIRECT EXAMINATION
5 BY
6 MR. LANNON:
7 Q Would you state your name for the record.
8 A Mike Ostrander, O-s-t-r-a-n-d-e-r.
9 Q And who is your employer?
10 A Illinois Commerce Commission.
11 Q What is your position at the Illinois
12 Commerce Commission?
13 A I'm an accountant in the Accounting
14 Department of the Financial Analyst Division.
15 Q Do you have before you a document marked
16 for identification that's ICC Staff Exhibit 2.0 and
17 Schedules 2.1 N and P, confidential and public, 2.2N
18 and P through 2.5N and P and 2.6 P?
19 A Yes.
20 Q And did you prepare those documents for
21 presentation in this matter?
22 A Yes, I did.

1 Q And do you have any corrections to make to
2 Exhibit 2.0 and the attached schedules?

3 A No, I don't.

4 Q Do you have before you a document marked
5 for identification as ICC Staff Exhibit 11.0
6 corrected and Schedules 11.1N and P corrected, both
7 public and confidential and 11.2 N and P?

8 A I do.

9 Q And do you have any corrections to Exhibit
10 11.0 and the attached schedules?

11 A I have no corrections to 11.0 corrected and
12 schedules.

13 Q Did you prepare that document for
14 presentation in this matter?

15 A Yes, I did.

16 Q Do also have before you a document marked
17 for identification as ICC Staff Exhibit 20.0 and
18 Schedules 20.1N and P, which is both confidential and
19 public versions?

20 A Yes.

21 Q Did you prepare that document for
22 presentation in this matter?

1 A Yes.

2 Q Do you have any corrections to make to
3 Staff Exhibit 20.0 and the attached schedules?

4 A No, I don't.

5 Q Is the information contained in Staff
6 Exhibits 2.0 and attached Schedules 11.0 and attached
7 Schedules 20.0 and attached schedules true and
8 correct to the best of your knowledge?

9 A Yes, they are.

10 Q If I were to ask you the same questions
11 that are set forth in those exhibits, would your
12 responses be the same today?

13 A Yes, they would.

14 MR. LANNON: Your Honor, I move for admission
15 into evidence Staff Exhibit 2.0 and all the attached
16 Schedules. If you like me to, I will go through
17 them.

18 JUDGE HILLIARD: No.

19 MR. LANNON: 11.0 corrected and the Staff and
20 the schedules, and Staff Exhibit 20.0 and the
21 attached schedules.

22 JUDGE HILLIARD: Objections?

1 (No response.)

2 Hearing no objections, Exhibit 2.0
3 with attached Schedules to 11.0 and attached
4 schedules, Exhibit 20.0 and attached schedules are
5 admitted in the record.

6 (Whereupon, Staff Exhibit Nos.
7 11.0 and 20.0 were admitted
8 into the record.)

9 MR. LANNON: Thank you, your Honor.

10 Mr. Ostrander is available for cross.

11 CROSS EXAMINATION

12 BY

13 MS. LUSSON:

14 Q Good afternoon, Mr. Ostrander.

15 A Good afternoon.

16 Q My name is Karen Lusson. I'm from the
17 Attorney General's Office. I want to ask you some
18 questions one regarding your testimony related to THE
19 GCI proposed adjustment to self-constructed
20 properties as well as a few questions about rate case
21 expense.

22 If you would could you refer to Page

1 10 of your rebuttal testimony, Lines 206 to 207.

2 A Of my rebuttal testimony or my corrected
3 rebuttal testimony?

4 Q Let's go with the most recent version.

5 A Okay.

6 Q Now, is it correct that you agree with
7 Peoples Gas indirect general and administrative type
8 costs related to self-constructed property should be
9 expensed for ratemaking purposes?

10 A Yes.

11 Q Would you agree that Peoples Gas does not
12 expense indirect general and administrative type
13 costs related to property constructed by outside
14 contractors?

15 A Could you say that again please.

16 Q Would you agree that Peoples Gas does not
17 expense indirect general and administrative type
18 costs related to property constructed by outside
19 contractors?

20 A Yes.

21 Q Now, I would ask the person down into
22 Springfield to hand you what we'll mark as AG

1 Cross-Exhibit 13, and if you give me a moment, I'll
2 pass that around here.

3 Mr. Ostrander, I should first tell you
4 that what you have in front of you is -- you were
5 referring to accounts, the entire volume, the
6 applicable volume, Part 201, Uniform System of
7 Accounts Prescribed For Natural Gas Companies Subject
8 to Provisions of the Natural Gas Act.

9 What I marked as an exhibit up here
10 are certain pages from that just to minimize the
11 number of pieces of paper in the record.

12 So first let me ask you, do you
13 recognize that to be, and are you familiar with, this
14 portion of the Uniform System of Accounts Prescribed
15 For Natural Gas Companies Subject to the Provisions
16 of the Natural Gas Act, Part 201?

17 A Yes.

18 Q Does it look to be a true and correct copy
19 of that?

20 A To the best of my knowledge.

21 Q Okay. If you would turn to Page 12 of that
22 document, first let me have you go back to Page 11.

1 There is an item in the middle of the page, which
2 says "components of construction costs."

3 Do you see that there?

4 A I do.

5 Q It says:

6 "The cost of construction
7 properly include while in the gas
8 plan account shall include where,
9 applicable, the direct and overhead
10 costs as listed and defined here under."

11 Do you see that?

12 A No, I don't.

13 Q This is Page 11, in the middle of the page,
14 it says 3 --

15 A I found it. Thank you.

16 Q Okay. Looking through that, would you
17 agree then that the uniform system of accounts
18 includes items such as general administration and
19 insurance as components of plant construction costs?

20 A Yes, uniform system accounts allow such
21 costs.

22 Q Would you agree that back on Page 11, that

1 the cost of the construction properly includable in
2 the gas plan accounts "shall include" not "can
3 include," would you agree?

4 A That's what it says, "shall."

5 Q What do you believe would be appropriate to
6 govern the ratemaking accounting practices in
7 Illinois, the uniform system of accounts or what the
8 other Integrys companies do with these items?

9 A That which is most applicable for Illinois
10 companies, which would be the uniform system of
11 accounts.

12 Q Now, looking at Lines 217 -- again, I'm
13 looking at your corrected rebuttal testimony, which I
14 think is the version you're looking at, right?

15 A Yes.

16 Q Beginning at Lines 217 through 219, you
17 reference the Integrys Tax Department having filed
18 with the IRS for different means of calculating such
19 indirect costs.

20 Do you see that?

21 A I do.

22 Q Do you know if the companies received any

1 such permission?

2 A No, I don't.

3 Q And regardless of whether the IRS permits
4 Company to do for book purposes -- for tax purposes,
5 that's not necessarily binding for ratemaking
6 purposes, is it?

7 A No.

8 Q In fact, many accounting adjustments are
9 treated differently for ratemaking purposes than for
10 book accounting, would you agree -- I'm sorry for tax
11 accounting?

12 A To some extent, yes.

13 Q I would like to now turn your attention to
14 your rate case expense discussion.

15 Now, as I understand your rebuttal
16 testimony, you're making a few adjustments to the
17 companies' requested rate case expense amounts.

18 Now, is it correct that you describe
19 three separate adjustments, the deducted amounts
20 related for incentive compensation consistent with
21 Ms. Ebrey's recommendation?

22 A That is a component, yes.

1 Q And for North Shore, that reduction is
2 \$48,000 and the Peoples amount is about \$67,000?

3 MR. LANNON: Excuse me. Are you still in
4 rebuttal testimony?

5 MS. LUSSON: Yes, this is all rebuttal
6 testimony.

7 THE WITNESS: On Schedule 11.1 and confidential
8 corrected, this amount is \$39,000 for North Shore,
9 and for Peoples looking at Schedule 11 --

10 MR. LANNON: Hang on just a minute, Mike.

11 JUDGE HILLIARD: Are these confidential
12 numbers?

13 MR. LANNON: That's what I'm afraid of.

14 MS. LUSSON: I don't think his adjustments are.

15 MR. LANNON: What scheduled are you looking at,
16 Mike?

17 THE WITNESS: I'm looking at on Page 3 of 3,
18 line 11, Column G, the total disallowed for Peoples,
19 which carries forward to Page 2 of 3.

20 MR. LANNON: And that's of Schedule 11.1,
21 right?

22 THE WITNESS: Yes.

1 MR. LANNON: And 11.1P has all those blacked
2 out, correct?

3 THE WITNESS: That's correct.

4 But the total disallowed, okay, that
5 carries forward on Page 3 of 3 is not confidential.
6 It carries forward to public version on Page 2 of 3,
7 Line 11, Column G.

8 MR. LANNON: Okay.

9 BY MS. LUSSON:

10 Q I'm not sure in response to Mr. Lannon's
11 questions you indicated the Peoples adjustments, so I
12 just want to make sure I have the correct adjustments
13 for brief purposes.

14 You said 39,000 for North Shore on
15 11.1. Then, what was the amount for Peoples Gas?

16 A I'm looking at my supplemental rebuttal
17 testimony for Peoples, it's \$54,000 decrease and for
18 North Shore \$39,000 decrease.

19 Q Then those amounts don't include separate
20 adjustment indicated on your 11.2 schedules; is that
21 right? Related to removal of costs associated with
22 the last rate cases rehearing?

1 A I'm sorry. Which schedule are you
2 referring to?

3 Q 11.2?

4 A No, 11.2 is in regards to the prior 2009
5 docket?

6 Q Right. You removed amounts associated
7 with -- is it associated with costs that were
8 incurred for the rehearing; is that right?

9 A What I'm adjusting to is the actual cost
10 incurred through the review of the final order and
11 compliance filing. So, yes, I did not include in the
12 actual costs related to appeals or rehearing.

13 Q That was going to be my next question.

14 So, in your opinion, dollar values
15 associated with Appellate work should not be included
16 in rate case expense for this case, would you agree?

17 MR. LANNON: Your Honor --

18 THE WITNESS: For this case, no.

19 MR. LANNON: Forget it. He already answered.

20 BY MS. LUSSON:

21 Q I'm confused.

22 So for this case, no, so you're saying

1 it should be included or not?

2 A No, my adjustment on Schedule 11.2 reflects
3 the actual costs incurred for the prior rate case
4 prior to rehearing or Appellate costs.

5 Q Okay. And do you have an opinion going
6 forward if any of the costs that companies requested
7 be included in rates for this case include Appellate
8 court's Appellate costs? Would you recommend removal
9 of those costs?

10 A I have no opinion on that at this point in
11 time.

12 JUDGE HILLIARD: Unless it's confidential, what
13 is the magnitude for the adjustment, the amount he is
14 disallowing here?

15 MS. LUSSEN: Maybe you ought to answer that,
16 Mr. Ostrander.

17 THE WITNESS: I want to turn to my corrected
18 rebuttal testimony.

19 For North Shore, we are talking a
20 decrease of \$23,000, and for Peoples Gas, we are
21 talking about a decrease of \$55,000.

22 Q Would you agree, Mr. Ostrander, that the

1 companies, both, the combined rate case expense
2 request of Peoples Gas and North Shore exceeds
3 \$5 million in this case?

4 A Yes, together over the \$5 million.

5 Q Now, I believe both in your direct
6 testimony and rebuttal testimony, you reference
7 Section 9-29 of the Public Utilities Act.

8 Do you recall that?

9 A Yes, ma'am.

10 Q And would you agree that the Act requires
11 the Commission to expressly address in its final
12 order the justness and reasonableness of any amount
13 expended by a public utility to compensate attorneys
14 or technical experts to prepare a litigated general
15 rate case filing?

16 A Yes.

17 Q Now, at Page 5 of your direct, you indicate
18 there that the Commission was interested in a level
19 of detail in the last ComEd rate case order that's
20 Docket 10-0467 that revealed an explanation of what
21 services were performed, the amount of time involved
22 in performing those services and the need for

1 whatever service was performed in order to justify
2 the rate case expense; is that right?

3 A Yes.

4 Q In your analysis in this case, are those
5 the types of things you looked at?

6 A Yes.

7 Q With respect to amounts related to
8 intercompany billings for Peoples/North Shore
9 affiliates, would it be correct to assume that the
10 documents you reviewed are included within Company
11 Surrebuttal 39.9 proprietary exhibit?

12 A Yes.

13 Q So those are the documents that were the
14 basis for your rate case recommendations in your
15 rebuttal testimony?

16 A They were the primary source, yes.

17 Q Okay. Looking at -- beginning at Line 112
18 through 117 on Page 6, you referenced proposed
19 adjustments there, and you indicate that they reflect
20 the actual rate case expenses incurred through
21 June 30, 2011, plus an estimate of necessary expenses
22 to be incurred through the final stages of the

1 current rate cases.

2 Do you see that there?

3 A Yes.

4 Q Did you conduct a specific analysis to
5 evaluate whether the amounts that were, in fact,
6 billed to the Company's through July 31, 2011 for the
7 various rate case costs categories, including
8 consultant legal and affiliate billing, as compared
9 to the forecasted amounts requested by the companies
10 for those categories?

11 A I don't understand your question.

12 Q Well, in making your rate case expense
13 recommendations in your rebuttal testimony, did you
14 incorporate or analyze the amount of billings that
15 have been produced or indicated by Company through
16 July 31, 2011 for those categories; that is, outside
17 consultants, legal expense, Stafflogics, the
18 inter-company billings, et cetera?

19 A I addressed that in my supplemental
20 rebuttal testimony, yes.

21 Q And in evaluating that, did you perform any
22 analysis or compare with other rate cases whether the

1 amounts listed as not yet billed compared to the
2 amount that's being requested are consistent with
3 what's been done in the past?

4 A No, I did not.

5 Q Did you make a specific assessment as to
6 whether the amounts outstanding as compared to the
7 amount that Company has requested seem appropriate,
8 given the amount of work for tasks involved in
9 finishing this rate case?

10 A I did not look at it at that micro-level of
11 detail. What I looked at in comparing to other rate
12 cases, the prior rate cases was I looked at the total
13 and as the case evolved, the actual costs incurred,
14 looked at that actual, okay, versus what was
15 budgeted, looking at how does that impact the ending
16 budgeted amount.

17 In other words, looking at as the time
18 progressed through the actual incurred, but also
19 looking at from the budget perspective what needed to
20 be done and how much time and how much it's going to
21 cost.

22 I think in my adjustment there were

1 some categories, although be it confidential, by
2 various provider where the budget was brought down.

3 Q Are you referring to your adjustments or
4 companies' adjustments?

5 A My adjustments.

6 Q Okay.

7 A That the basis came from the responses from
8 Company through my data request responses.

9 Q And when you say you looked at past rate
10 cases, did you look to see if the amount -- strike
11 that.

12 Did you look, for example, to see if,
13 for example, outside consultants, whether the amount
14 that has been billed compared with the amount that
15 has been requested is significantly under budget
16 given the state of the case and the budget of outside
17 consultants?

18 A No.

19 Q Same question for affiliate billings.

20 A Would you repeat the question please.

21 MS. LUSSON: Could you read back the question.

22

1 (Whereupon, the record was read
2 as requested.)
3 THE WITNESS: No.
4 BY MS. LUSSON:
5 Q And same question with respect to the legal
6 fees for Foley & Lardner and Rooney, Rippie and
7 Ratnaswamy?
8 A No.
9 MS. LUSSON: Thank you, Mr. Ostrander, no
10 further questions.
11 CROSS EXAMINATION
12 BY
13 MR. RATNASWAMY:
14 Q Good afternoon, Mr. Ostrander. I'm --
15 speak of the devil, so to speak -- John Ratnaswamy,
16 one of the counsels for the Utilities.
17 On the self-constructed property
18 issue, to sort of direct your attention to that
19 subject please.
20 Is it right that companies' financial
21 statements are subject to annual audits by
22 independent auditors?

1 A Yes.

2 Q Do the companies also file what are called
3 Form 21s every year?

4 A Yes.

5 Q What is a Form 21 please?

6 A A regulatory filing with the Illinois
7 Commerce Commission.

8 Q Okay. Has any witness pointed to you or
9 are you aware of any auditor raising any question of
10 the correctness of the audit accounting for
11 self-constructed property by the Utilities?

12 A Not to my knowledge.

13 MS. LUSSON: I object at this point this is now
14 wandered into friendly cross-examination --

15 JUDGE HILLIARD: Could you come up to the mic.
16 We want to have a record here.

17 MR. LANNON: Your Honor, I haven't objected.

18 JUDGE HILLIARD: I understand that.

19 MS. LUSSON: The questions that Mr. Ratnaswamy
20 is asking Mr. Ostrander are related to an adjustment
21 that for which the witness agrees with the company
22 and so I believe the question, the last two questions

1 that Mr. Ratnaswamy asked were in the nature of
2 friendly cross-examination in response to the
3 cross-examination that I just did.

4 MR. RATNASWAMY: May I respond?

5 JUDGE HILLIARD: Well, this is not your
6 witness. I don't think your objection is
7 appropriate.

8 MS. LUSSON: Okay.

9 BY MR. RATNASWAMY:

10 Q Mr. Ostrander, I'm sorry, I should know,
11 but I don't. Were you a witness in the 2010
12 Commonwealth Edison Company rate case?

13 A No.

14 Q Okay. Are you familiar with the
15 Commission's findings on the subject of the rate case
16 expenses in that docket?

17 A Yes.

18 Q Do you recall whether there were any
19 findings about how much work is done on rate cases
20 from the point of rebuttal on?

21 A No.

22 Q Have you reviewed Ms. Moy's surrebuttal

1 testimony on the rate case expenses?

2 A Yes.

3 Q Would you agree that she did further

4 updating on the rate case expenses based on the most

5 recent information produced in discovery?

6 A Yes.

7 MR. RATNASWAMY: I have no further questions.

8 Thank you.

9 JUDGE HILLIARD: Ms. Lusson, are you going to

10 move for Cross-Exhibit 13?

11 MS. LUSSON: Yes.

12 JUDGE HILLIARD: Hearing no objections,

13 Cross-Exhibit 13 will be admitted into the record.

14 (Whereupon, AG Cross 13 was

15 admitted into evidence.)

16 JUDGE HILLIARD: Thank you, Mr. Ostrander.

17 MR. LANNON: Mike, do we have any reason to

18 talk? I'm not aware of any.

19 THE WITNESS: No.

20 JUDGE HILLIARD: Thank you.

21 MR. RATNASWAMY: That was admirably efficient.

22 MR. LANNON: Thank you.

1 JUDGE HILLIARD: You're through, Mr. Ostrander.
2 Thank you very much.
3 (Witness excused.)
4 MS. LUCKEY: Staff now calls David Brightwell
5 to the stand.
6 JUDGE HILLIARD: Mr. Brightwell, could you
7 raise your hand and be sworn.
8 (Witness sworn.)
9 DAVID BRIGHTWELL,
10 called as a witness herein, having been first duly
11 sworn, was examined and testified as follows:
12 DIRECT EXAMINATION
13 BY
14 MS. LUCKEY:
15 Q You please state your name for the record.
16 A David Brightwell.
17 Q And by whom are you employed?
18 A The Staff of the Illinois Commerce
19 Commission.
20 Q Dr. Brightwell, do you have in front of you
21 what has been previously file on E-Docket as the
22 direct testimony of David Brightwell, ICC Staff

1 Exhibit 6.0, dated June 15, 2011 and which consists
2 of a cover page, a table of contents, and 19 pages of
3 narrative text?

4 A Yes.

5 Q Was ICC Staff Exhibit 6.0 prepared by you
6 or under your direction, supervision and control?

7 A Yes.

8 Q Do you have any additions, deletions or
9 modifications to make to ICC Staff Exhibit 6.0?

10 A Yes, I do.

11 Q What are those?

12 A On Page 15, at Line 303, there is a
13 reference to a 50/50 split that should actually read
14 55/45 split. On Page 17, Line 338, there is a
15 sentence that begins "Rider VBA is a preferable," it
16 should be "Rider VBA is preferable" omit -- deleting
17 the "a" from that line.

18 Then on Page 18 at Line 356, there is
19 ranges currently 25 to 30 percent, which should read
20 20 to 30 percent.

21 Q Do you have any additional additions or
22 deletions or any other modifications to Staff Exhibit

1 6.0?

2 A No.

3 Q If I were to ask you today the same series
4 of questions set forth in that document, would your
5 answers be the same?

6 A Yes.

7 Q Dr. Brightwell, do you also have in front
8 of you what has been previously filed on E-Docket as
9 the rebuttal testimony of David Brightwell, which has
10 been marked for identification as ICC Staff Exhibit
11 15.0, dated August 15. 2011, which consists of a
12 cover-page, a table of contents and 10 pages of
13 narrative text?

14 A Yes.

15 Q Dr. Brightwell, was your rebuttal testimony
16 prepared by you or under your direction, supervision
17 and control?

18 A Yes.

19 Q Do you have any additions, deletions or
20 modifications to make to the narrative testimony?

21 A No.

22 Q If I were to ask you today the same series

1 of questions set forth in those documents, would your
2 answers be the same?

3 A Yes.

4 MS. LUCKEY: At this time, Staff would move to
5 admit into evidence the direct testimony of David
6 Brightwell, ICC Staff Exhibit 60.0, and the rebuttal
7 testimony of David Brightwell, ICC 15.0.

8 JUDGE HILLIARD: Objections?

9 (No response.)

10 Hearing no objection, Staff Exhibit
11 6.0 and Staff Exhibit 15.0 will be admitted in the
12 record.

13 (Whereupon, Staff Exhibit Nos.
14 6.0 and 15.0 were admitted into
15 the record.)

16 MS. LUCKEY: We would tender the witness for
17 cross.

18 MR. JOLLY: Thank you.

19 CROSS EXAMINATION

20 BY

21 MR. JOLLY:

22 Q Dr. Brightwell, my name is Ron Jolly. I'm

1 an attorney for the City of Chicago.

2 A Hello.

3 MR. JOLLY: I didn't enter my appearance. Can
4 I enter it real quick?

5 JUDGE HILLIARD: Yes, please do.

6 MR. JOLLY: Ronald Jolly on behalf of the City
7 of Chicago, 30 N. LaSalle, Suite 1400, Chicago,
8 Illinois, 60602.

9 BY MR. JOLLY:

10 Q Hello again, Dr. Brightwell. Would you
11 turn to Page 4, Line 67 of your direct testimony.

12 And there you refer to policy
13 objectives of the General Assembly.

14 Do you see that?

15 A Yes.

16 Q To what policy objectives are you referring
17 to?

18 A Referring to the energy efficiency laws
19 that are Section 8.103 and Section 8-104 of the
20 Public Utilities Act.

21 Q Okay. And you talk about the impact of the
22 SFE, the straight fixed variable rate design and

1 Rider VBA on that policy objective, is that correct,
2 in your testimony?

3 A That's correct.

4 Q Could you turn to Page 7, Lines 145 through
5 148.

6 A Okay.

7 Q And that portion of the testimony there,
8 you are talking about the impact of those two
9 particular rate designs on the energy efficiency
10 policy objective of the General Assembly; is that
11 correct?

12 A Yes.

13 Q And in your answer to the question that
14 starts at Line 145 you state:

15 It is true that the savings
16 under the VBA are not as great as they
17 would be if they were -- it was
18 neither a VBA or SFE rate structure.

19 Is that correct?

20 A Yes.

21 Q Can I infer from your statement there that
22 there are other rate structures whereby there could

1 be greater energy efficiency savings for customers
2 under a SFE or under a VBA rate design?

3 A Yes.

4 Q Could you provide me for an example of what
5 some such other rate design might be?

6 A Well, the point I was making here is
7 continued on through the question that begins on Line
8 53 talking about this is that, if there is an
9 under-collection by the utility, that if you're on a
10 VBA rate, you would have to return some of that other
11 collections -- the other collection would be returned
12 by the utility.

13 If under that circumstance, if there
14 was no VBA, the customer would have greater savings
15 than if there was a VBA.

16 Similarly, if there were no SFE where
17 there were no variable rates, the savings would be
18 better.

19 The question that begins at 153 and
20 the answer that goes through Line 170 explain that
21 some of this is a function of what the utility
22 expects to be saved and what they forecast to be

1 saved rather than versus what actually happened and
2 if you would get it from the standpoint of what the
3 dollar value of the savings were if the forecast is
4 perfect that in this scenario the customers savings
5 or the dollar amount saved would be greater because
6 the actual costs per therm is higher after the
7 adjustment.

8 Q The savings under what rate design are you
9 referring to there?

10 A Under Rider VBA, that after the adjustment
11 takes place, I will give you an example that
12 pre-adjustment it was 10 cents per therm, it was the
13 cost to the ratepayer.

14 After the adjustment every therm saved
15 is actually 10.1 cents per therm.

16 Q But under Rider VBA, if there is a
17 surcharge to customers, is it true that a customer
18 whose invested in an energy efficiency measure would
19 see less -- would return part of the money she would
20 save by investing in the energy efficiency measure if
21 Rider VBA were not in place?

22 A Provided that the forecast was such that

1 Company underestimated the amount of savings that
2 would take place.

3 The forecast has included variables
4 that account for energy efficiency through either
5 shell efficiency -- I don't know -- there were two
6 different ways that energy efficiency took place or
7 occurred under the forecast. I don't recall
8 specifically at this time what those are.

9 But if those forecasts were off to
10 where the customer could end up paying -- returning
11 some of what was saved, if the forecasts were off in
12 the utility's favor, the customer would get an
13 additional return because Company over-collected.

14 Q Again, looking at Line 161 to 162, the
15 testimony here, the example you provide there assumes
16 that there is an accurate forecast, correct?

17 A There is two components to a forecast.
18 There is a forecast for a number of customers and
19 then there is a forecast for the use per customer.
20 Then in 161 the supposition is that the forecast of
21 the number of customers is accurate, but that there
22 is an under-prediction by Company in the amount of

1 conservation that would take place.

2 Q Well, usage could also be effected by
3 things other than the energy and efficiency
4 investment; is that correct?

5 A Yes.

6 Q And that includes weather?

7 A Yes.

8 Q So if weather is colder than predicted then
9 and Company were to -- let me take that back. Strike
10 that. Let me start again.

11 Let's assume that the weather is
12 warmer than predicted and Company's, the utility
13 under-collects, would there be a surcharge then?

14 A Yes, there would be.

15 Q And so --

16 A Let me ask you, when you say "surcharge,"
17 are you referring to --

18 Q A rate adjustment two months forward.

19 A Yes.

20 Q Assuming that there is a rate adjustment
21 two months forward, is it true that regardless of
22 what that rate adjustment is for that the customer

1 who invests in energy efficiency would end up paying
2 the utility more than it otherwise would if Rider VBA
3 were not in place?

4 A All customers would end up paying more than
5 if Rider VBA was not in place; however, when this is
6 adjusted to a per-therm charge, it would actually
7 increase the -- when it's adjusted to a per-therm
8 charge, each therm that the customer saved is now
9 worth more than it was previously if there was no
10 surcharge or adjustment because of Rider VBA.

11 It's the same principle as if the
12 forecast is off, if you knew what the weather was
13 ahead of time, the per-therm charge would be higher
14 than what was actually predicted and because of that,
15 each therm saved -- the marginal effect of each therm
16 saved is a greater savings for the customer.

17 Q Let me ask you this: Do you think Rider
18 VBA has an impact on customer's -- the payback for
19 customers who invest in energy efficient measures?

20 A It would depend. You know, the rate case
21 has normal weather. Assuming you're equally likely
22 to have warmer weather or colder weather, it would

1 depend on which occurred first because of the
2 discounting of the benefits.

3 Q Well, it would also be affected by, I guess
4 as you said, when the weather -- if there is warmer
5 weather for three or four years in a row, then that
6 has an impact on the payback period for any energy
7 efficiency measure; is that correct?

8 A Yes.

9 Q Could you turn to Page 8 of your rebuttal
10 testimony.

11 A Rebuttal testimony?

12 Q Yes.

13 And in particular at Lines 159 through
14 162, and there you state:

15 "Promoting revenue stability
16 through Rider VBA and keeping fixed
17 customer charge lower is preferable
18 to raising the percentage of fixed
19 costs recovered through fixed
20 customer charges."

21 Is that correct?

22 A Yes, I do.

1 Q Can I infer from that statement that you do
2 not believe that all costs that the utility
3 identified as fixed costs should recovered through
4 the fixed customer charge, component of the rates?

5 A Yes, that would be true.

6 Q And is that because there are other policy
7 objectives that the Commission should consider when
8 designing rates?

9 A I believe so, yes.

10 Q And what are some of those other policy
11 objectives?

12 A Again you have the energy efficiency laws
13 by putting some of the fix charged through fixed
14 volumes -- through volumetric charges, you increase
15 the marginal cost at the beginning, which encourages
16 conservation.

17 To some extent, I would expect to see
18 low-use customers dropping off the gas system which
19 has long-term negative consequences for higher-use
20 customers because you have largely a fixed system and
21 the customers would have to -- there would be fewer
22 customers and fewer overall therms of which costs

1 would be spread over which would affect the
2 higher-use customers in the long run.

3 When those customers switch off the
4 system, it could be that there switching to electric
5 appliances, it could be that they're choosing
6 residences that will be all electric rather than the
7 gas, in which case you're increasing the demand on
8 the electric system to the rates being set on the gas
9 side as well, which affects the conservation of
10 electricity which is part of 8-103 of the Public
11 Utilities Act.

12 MR. JOLLY: I have nothing further.

13 Thank you, Dr. Brightwell.

14 THE WITNESS: Thank you.

15 JUDGE HILLIARD: I have a couple questions,
16 Dr. Brightwell.

17 THE WITNESS: Yes, sir.

18 JUDGE HILLIARD: This is ALJ Hilliard from the
19 ICC.

20

21

22

1 CROSS EXAMINATION

2 BY

3 JUDGE HILLIARD:

4 Q You were just discussing how the percentage
5 of costs that are allocated to the fixed charges
6 rather than the volumetric charges may cause -- you
7 said the low-use customer or non-heating customer to
8 migrate to other forms of energy?

9 A Yes, sir.

10 Q Aren't many of the non-heating-use
11 customers in rental units where the decision as to
12 what form of energy to use is not their's?

13 A Well, the customer has the choice of
14 choosing what type of housing unit to live in.

15 I came up with this based upon my time
16 in Texas where I had gas, water, heat, and I had a
17 gas stove in an apartment I lived in. My monthly
18 bills were about 30 to \$40 because the fixed charge
19 was so high.

20 Basically the winters were warm enough
21 there that you didn't have many furnaces at all, I
22 think that might be the reason why they were so high.

1 But as soon as my lease was up, I
2 moved and I chose a place that was all electric.

3 I assume that customers in the City of
4 Chicago and people in the North Shore territory have
5 that option as well.

6 It's entirely possible, depending on
7 their work situation and their finances, that given
8 the proximity of the Nicor service territory that
9 these people could -- these customers could move out
10 of the North Shore territory and then into rental
11 properties in the Nicor territory.

12 Q Well, it's my recollection from the data
13 requests that the vast majority of the non-heating
14 customers are Peoples Gas customers.

15 And in my mind, I associate that with
16 city residents, probably some percentage are
17 inner-city residents who have limited options in
18 terms of where they can live and how much they can
19 pay for.

20 Also, I think in the City of Chicago,
21 it's very likely that the great majority of rental
22 units or housing are with gas appliances rather than

1 electric, and that the choice to go to electric is a
2 landlord's rather than the tenant's.

3 Do you disagree with those statements?

4 A No, I don't.

5 I would like to point out the one
6 statement you made was in that case the customer
7 would be paying more.

8 I don't have the DR, I believe it was
9 an ALJ DR that the companies responded to, that for
10 Peoples Gas customers that were below-use, there was
11 a fairly large increase in the bill due to raising
12 the fixed customer charges.

13 So if that does occur, you're going to
14 see the low-use customers' bills increasing by a much
15 larger percentage than the high-use customers.

16 Q Would it be fair to say that in many cases
17 we are talking about the poor or the elderly and they
18 more of a captive audience for the gas appliances
19 than someone who has the ability to move to a
20 different service area or a different type of
21 housing?

22 A I would have to speculate on that. It does

1 not sound unreasonable, but I don't know what the
2 demographics of what the low-use customers are.

3 Q Well, I think from the responses to the
4 DRs, there's an indication that the volumetric usage
5 of many of the non-heating gas customers is quite
6 low, and that in many cases the fixed customer charge
7 would be several times the actual charge for gas
8 usage.

9 Do you agree with that?

10 A Yes, I do.

11 JUDGE HILLIARD: Thank you.

12 MR. JOLLY: Can I just ask a follow up question
13 or two?

14 JUDGE HILLIARD: Yes.

15 MR. JOLLY: Thank you.

16 RECROSS-EXAMINATION

17 BY

18 MR. JOLLY:

19 Q Following up on Judge Hilliard's questions,
20 you submitted similar testimony in the most recent
21 ComEd rate case on the similar issue regarding the
22 level of the customer charge, is that correct, with

1 respect to their proposal for a straight-fixed
2 variable rate design?

3 A I don't recall doing that.

4 Even in the rate case, the only issue
5 that I addressed was a 40 base --

6 Q I'm sorry. It was a different Staff
7 witness, so strike that question.

8 MR. JOLLY: Thanks.

9 CROSS EXAMINATION

10 BY

11 MS. LUSSEN:

12 Q Good afternoon, Mr. Brightwell.

13 A Good afternoon.

14 Q I want to focus on your conclusions
15 regarding Rider VBA.

16 A In direct or rebuttal testimony?

17 Q Both. Both. This is just as an
18 introductory statement to get you focused on that.

19 First, I want to have an understanding
20 of your assignment in this case.

21 You indicated, I think, in your direct
22 testimony that you prefer Rider VBA to the Company's

1 straight-fixed variable proposal. There you're
2 referring to the 80/20 proposal?

3 A The Company is actually proposed a full
4 fixed-straight variable, which is 100 percent of
5 costs being recovered through fixed charges as an
6 alternative.

7 Through the Nicor and the Ameren most
8 recent rate cases, the Company has gone towards
9 higher fixed charges, and it just happens it's a
10 80/20 split of fixed costs being recovered through
11 fixed charges and 40 percent being recovered through
12 volumetric charges.

13 It was more in anticipation of where
14 the Commission has gone before, advising the
15 Commission that the amount of pettiness (phonetic) of
16 the VBA is better than the increasing the percentage
17 of the fixed costs that are recovered through fixed
18 charges.

19 Q Okay. With that caveat, are you
20 specifically endorsing Ms. Grace's alternative rate
21 design, which is, I think, the 55 percent of costs
22 recovered through the fixed charges?

1 A We have a rates witness that address what
2 the appropriate recovery level was.

3 My job was just to assess a
4 straight-fixed variable versus a VBA.

5 Q Okay. And certainly the Commission can
6 look at other rate design proposals in this docket;
7 would you agree?

8 A Yes.

9 Q If you would turn to Page 3 of your direct
10 testimony, Lines 53, beginning at Line 53.

11 A Okay.

12 Q That sentence that starts:

13 "As proposed by Company in this case,"
14 you indicate that VBA stabilizes revenue with an
15 annual adjustment, is that correct, for any under- or
16 over-recovery for fixed costs."

17 Do you see that?

18 A Yes.

19 Q When you talk about stabilizing revenue
20 there, you're referring to company revenues as
21 opposed to customer revenues; is that right?

22 A Well, I'm not sure how a customer would

1 make revenues off the, gas, so, yes.

2 Q Let me correct the question.

3 You're referring to company revenue
4 stability as opposed to, say, a comparison of
5 customer monthly bill stability?

6 A Again, this is an annual stabilization, not
7 a monthly stabilization.

8 So my understanding is that at
9 approximately 2013, that the month to month
10 adjustments are, that they're proposing to do away
11 with those will go to just an annual reconciliation.

12 From the customer's perspective, I'm
13 not sure what the affect would be on on the annual
14 expenditure for gas under that circumstance -- or for
15 the distribution portion of gas under that
16 circumstance.

17 Q So if Company accepted the change to Rider
18 VBA and then performed an annual adjustment, either a
19 surcharge or credit, would you agree that it's
20 possible customers might face some confusion as to
21 why at the end of year, or perhaps in the beginning
22 of the year, whenever this adjustment appears on

1 their bills, at the beginning of the following year,
2 that has to what -- where this came from.

3 A I think that a customer can have confusion
4 about where any charge on the bill came from.

5 Q And you agree that this VBA surcharge would
6 be separate and apart from the customer charge and
7 the usage charges that they typically pay each month?

8 A Can you repeat that question.

9 Q You would agree, wouldn't you, that the VBA
10 surcharge or credit would appear as a line item
11 separate and apart from the customer charge and the
12 usage charges that they pay every month?

13 A I'm not sure of the mechanics.

14 Q Okay. Turning your attention, if you
15 would, to Line 74 of your direct testimony, which is
16 on Page 4.

17 A Okay.

18 Q There you indicate VBA reduces the
19 consequences from an accurately predicting sales
20 volumes and customer accounts in setting rates.

21 Do you see that?

22 A Yes.

1 Q Would you agree that if Company has an
2 accurately predicted sales volumes and customer
3 accounts to bear the revenue achievement detriment
4 that they always have the ability to come in for a
5 rate case?

6 A Yes, that's one of the points that I made,
7 was that it's not a systematic -- that if there's no
8 VBA, there is no systematic adjustment, because under
9 the case that it's to their detriment, they can't
10 come into a rate case. And in one respect that
11 expedites they're coming into a rate case.

12 And so the situation works in their
13 benefit, they're reaping excessive returns and then
14 there's no reason for them to come in to a rate case,
15 which is to the detriment of ratepayers in that
16 situation.

17 Q And you would agree that Rider VBA was
18 first implemented as a result of the 2007 rate case,
19 and it began appearing on customer bills in 2008?

20 A I know that it was implemented in a 2007
21 rate case. I believe that rate case ended in
22 February of 2008, so I would assume that it started

1 showing up on 2008 bills, but I don't know that for
2 certain.

3 Q And then Company filed a rate case in 2009
4 and then again in 2011; would you agree?

5 A Yes.

6 Q In your opinion, is it the Commission's job
7 to ensure, e-n-s-u-r-e, a level of revenue
8 requirement entered in a final order going forward?

9 A Is it their job to ensure it?

10 Q Yes.

11 A I don't know anything in the law that says
12 they have to do that, but I believe it's at their
13 discretion.

14 Q So would you agree then that the Illinois
15 Commerce Commission certainly is not obligated to
16 ensure that Peoples Gas, each year, continues to
17 achieve a certain level of revenue per customer going
18 forward?

19 A I would agree with that.

20 Q Would you also agree that revenues and the
21 costs of utility delivery service are dynamic and
22 ever-changing between rate cases?

1 A Yes.

2 Q So a revenue requirement established, say,
3 in 2012 may not necessarily be the appropriate
4 revenue requirement in 2013 because of changing
5 revenues and costs?

6 A Yes.

7 Q Can you turn to Page 5 of your testimony,
8 your direct testimony, at Line 102.

9 A Okay.

10 Q The sentence that starts with the word
11 "under Rider VBA."

12 The reference to favorable forecasts,
13 are you referring to forecasts that would
14 under-estimate usage in customer numbers?

15 A Yes.

16 In that situation, the Company would
17 collect more revenue than what the revenue
18 requirement -- what the rates were set for. They
19 would collect more than was entitled or what was
20 decided was the revenue requirement.

21 (Whereupon, there was
22 a change of reporters.)

1 (Change of reporter.)

2 Q Turning to your rebuttal testimony, at Line
3 110 on Page 6 where you reference the reconciliation
4 of Rider VBA adjusting for any over collection or
5 under collection, again, that's based on Company's
6 cal- -- the Company's calculation of revenue per
7 customer set in the rate case, right?

8 A Well, it's on -- it would be under any
9 mechanism. I believe that Staff Witness Ebrey made a
10 recommendation to do away with the recovery per
11 customer to adjust it to the absolute revenue
12 requirement. And I believe -- I'd have to look
13 somewhere in my direct testimony where my
14 recommendation overall was to accept this with the
15 acknowledgment that Staff Witness Ebrey has some
16 additional adjustments. I was pretty much doing my
17 analysis of it in the conditions that Staff's
18 adjustments were.

19 Q Okay. And with respect to Ms. Ebrey's
20 recommendation about incor- -- and as I understand
21 her recommendation, it is that Rider VBA be modified
22 to reflect in the reconciliations of usage versus the

1 revenues per classification established in the rider
2 via the revenue requirement, that customer -- changes
3 in customer numbers also be reflected through the VBA
4 surcharge; is that correct?

5 A That question got a little long for me.

6 Q It did. I'll try it again.

7 Is it correct that Ms. Ebrey's
8 recommendation that customer numbers -- changes in
9 customer numbers also be reflected in that Rider VBA
10 surcharge as a -- in addition to changes in usage?

11 A I'm not sure.

12 Q Okay. So have you -- have you evaluated
13 either way what the effect of that recommendation
14 would be on surcharges and credits in terms of the
15 functioning of Rider VBA?

16 A As far as -- I believe that her
17 recommendation was to -- to do away with the revenue
18 per customer portion of it and to say that if your
19 revenue requirement is "X," when it comes to the
20 reconciliation you see what was actually recovered
21 versus what was -- versus what the revenue
22 requirement is, take the difference between the two,

1 divide it by the number of therms to come up with the
2 charge per therm.

3 Under that case, whether the cust- --
4 if my recollection is correct -- and that's an area
5 of -- they would collect the actual revenue
6 requirement regardless of the changes in customers or
7 therms.

8 Q But I guess my question is, with that
9 change, if you know -- because we obviously can -- if
10 you know, does that -- that change then -- strike
11 that.

12 Then under Rider VBA modified as
13 you've described, would changes in customer numbers
14 affect whether the surcharges or credits are
15 triggered by Rider VBA?

16 In other words, if there's more
17 customers, there's more revenue, perhaps, net
18 revenue; if there's less customers, there might be a
19 decrease in revenue?

20 A I'm not sure that I -- that I understand --
21 understand your question.

22 If -- I'll try to answer it, but --

1 under -- so if the number of customers increased,
2 there's a -- they would be collecting more revenues
3 from the first customer charge, but at the end of the
4 day, their total revenues would exceed the revenue
5 requirements which would cause a return of money to
6 the customers, from my understanding of Ebrey's
7 adjustments, correct.

8 Q So if there is a -- a trend in a reduction
9 of customers for a company, then the opposite might
10 be true, is that right, that is, that there might be
11 additional surcharges as a result?

12 A Under -- under either of those cases,
13 the -- that there's more customers or there's fewer
14 customers, it's actually more fewer than were
15 predicted by the forecast since the rates are set on
16 the forecast. If you have declining customers, but
17 it was fully accounted for, there would be no effect
18 on their revenue. If you had --

19 Q Okay. Understood.

20 A If it was fully accounted for, that
21 wouldn't effect the revenue requirement either.

22 Q Okay. I see your distinction.

1 And then -- so let me ask, if customer
2 accounts drop below that which is predicted in the
3 2012 test year forecast, then that, would you agree,
4 might trigger additional surcharges through Rider VBA
5 under that modified Rider VBA?

6 A The per therm charge would be higher under
7 that situation. I'm not sure that -- if that's what
8 you mean by "more surcharges" or not.

9 Q Yes, that -- in fact, that customers are
10 more likely to get assessed a higher VBA surcharge
11 or, perhaps, forego a credit?

12 A Yes.

13 Q Would you agree that if Rider VBA is
14 implemented and if the revenues received by Peoples
15 Gas are below the levels that are the benchmark for
16 Rider VBA, then a surcharge would be triggered at the
17 end of the year?

18 A What do you mean by "benchmark"?

19 Q The amount -- if the revenues did not
20 achieve the level that was forecasted for purposes of
21 Rider VBA.

22 A If the revenues didn't meet the levels that

1 were forecasted under Rider VBA?

2 Q Yes.

3 A Anytime there would be a difference between
4 the actual revenues and the -- and the revenue
5 requirement, there would be either a refund or a
6 credit.

7 Q Okay. So my question is, if it's below
8 that level that was predicted for purposes of Rider
9 VBA, then that triggers a surcharge; is that right?

10 A Defining surcharge how Mr. Jolly defined
11 it -- I mean, you could define it as a change in the
12 bill or adjustment, that it would be --

13 Q A positive adjustment through Rider VBA.
14 "Positive" as in an additional charge to the rate
15 payer.

16 A Yes.

17 Q Okay. And that surcharge would be related
18 to gas purchased, if you will, throughout that
19 12-month period; is that right? So it could have
20 been related to underusage in January, June,
21 whatever?

22 A Yes.

1 Q As an economist, can you think of any other
2 business where customers -- after a product is
3 purchased, that the buyers assess a surcharge
4 because -- on that product that was already purchased
5 because the company that offered that product wasn't
6 realizing the profits it had hoped or revenues it had
7 hoped?

8 A Well, I can't, and at the same time I can't
9 think of another example where -- of a type of
10 business that has to come in and ask a government
11 agency to change its prices either.

12 Q Okay. So, again, we're getting to the
13 difference between a monopoly and a private business?

14 A Yes.

15 Q Okay. And I think -- you testified
16 earlier, though, that it's not the Commission's job
17 to guarantee a certain revenue requirement between
18 rate cases?

19 A I testified that the -- that I am not aware
20 of any law that requires the Commission to do that,
21 but that my understanding is it has the discretion to
22 do so.

1 Q And your understanding that it has the
2 discretion to do so is based on -- on --

3 A It's done it in the past.

4 Q Okay. And when you say "it's done it in
5 the past," you're talking about this pilot?

6 A Well, it's through the Rider VBA increasing
7 the customer charge to -- has an effect of
8 stabilizing revenues as well.

9 Q Would you agree, as an economist, that the
10 purpose of monopoly regulation is to replicate the
11 price constraining characteristics of the free
12 market?

13 A I'm not sure what you mean by "the price
14 constraining characteristics."

15 Q To the extent that no competition exists
16 under a monopoly environment, that the purpose of
17 regulation is to ensure that rates are least cost and
18 that the monopoly is not permitted to charge whatever
19 because it has -- lacks any competition.

20 So that's what I'm saying when --
21 price constraining in terms of competition.

22 A I would agree that the objective of

1 regulating the natural monopoly is to -- to come up
2 with a price that would simulate what you would
3 expect for a competitive market.

4 Q Okay.

5 MS. LUSSON: Thank you. Thanks,
6 Mr. Brightwell. No further questions.

7 THE WITNESS: Thank you.

8 JUDGE HILLIARD: Mr. Brightwell, this is ALJ
9 Hilliard again. I have another question or two about
10 the customer charge.

11 THE WITNESS: Okay.

12 EXAMINATION

13 BY

14 JUDGE HILLIARD:

15 Q If the relative customer base stays the
16 same and you increased the fixed charges to the
17 low-use customer, are we not shifting costs away from
18 the higher-use customer?

19 A I'm not sure I understood you, your Honor.

20 Q We've got a revenue requirement, "X" amount
21 of dollars, and if the charges are primarily
22 volumetric based, then the higher-use customers

1 percentage of the total amount of the revenue
2 requirement is proportionate to their use of the
3 commodity; is that correct?

4 A Yes.

5 Q All right. If you increase the percentage
6 of fixed costs to all customers, regardless of their
7 volumetric use of the commodity, are we not shifting
8 costs away from the higher-use customers to the
9 lower-use customers?

10 A Yes, sir, you are.

11 Q And are we not then providing a
12 disincentive to conservation in that for the low-use
13 customer, there's very little relationship between
14 their use and the charges, and the high-volume
15 customer is paying less than he would if the charges
16 were more volumetric based?

17 A That's correct.

18 JUDGE HILLIARD: Thank you.

19 THE WITNESS: Thank you.

20 JUDGE HILLIARD: Is there any redirect?

21 MS. LUCKEY: We need some time to speak with
22 Staff, if we could, your Honor.

1 JUDGE HILLIARD: Okay. Mr. Brightwell, they're
2 going to give you a call, I think, to talk to you
3 about your testimony.

4 THE WITNESS: Okay.

5 (Whereupon, a recess was taken.)

6 (Change of reporter.)

7 JUDGE HILLIARD: Do you have any redirect.

8 MS. LUCKEY: We don't.

9 JUDGE HILLIARD: You're excused, Mr.
10 Brightwell.

11 THE WITNESS: Thank you.

12 (Witness excused.)

13 MS. KLYASHEFF: North Shore/Peoples Gas call
14 their next witness, Kevin Kuse.

15 (Witness sworn.)

16 KEVIN R. KUSE,
17 called as a witness herein, having been first duly
18 sworn, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY

21 MS. KLYASHEFF:

22 Q Mr. Kuse, could you please state your name

1 and business address for the record.

2 A My name is Kevin R. Kuse, Kuse.

3 My business address is 700 North Adams
4 Street, Green Bay, Wisconsin 54307.

5 Q Before you, you have two documents one
6 entitled, direct testimony of Kevin R. Kuse, marked
7 for identification as PGL Exhibit 4.0 Revised, and
8 direct testimony of Kevin R. Kuse marked for
9 identification as North Shore Exhibit 4.0 Revised.

10 Do these documents include the sworn
11 direct testimony you wish to give in these
12 proceedings?

13 A Yes.

14 Q Do you have any changes or corrections
15 beyond the revisions that were filed today?

16 A No.

17 Q If I were to ask you the questions included
18 in these documents, would your answers be the same as
19 set forth in those documents?

20 A Yes.

21 Q Do you have before you a document entitled
22 rebuttal testimony of Kevin R. Kuse and marked for

1 identification as NS/PGL Exhibit 32.0.

2 Does this document include the sworn
3 rebuttal testimony you wish to give in this
4 proceeding?

5 A Yes.

6 Q Do you have any changes or corrections?

7 A No.

8 Q If I were to ask you the questions included
9 in this document, would your answers be the same as
10 set forth in the document?

11 A Yes.

12 Q And you have before you a document
13 entitled surrebuttal testimony of Kevin R. Kuse
14 marked as NS/PGL Exhibit 48.0.

15 Does this document include your sworn
16 surrebuttal testimony?

17 A Yes.

18 Q Do you have any changes or corrections?

19 A No.

20 Q If I were to ask you the questions included
21 in the document, would your answers be the same as
22 set forth in it?

1 A Yes.

2 MS. KLYASHEFF: Subject to cross-examination, I
3 move for the admission of PGL Exhibit 4.0 Revised,
4 which was filed on E-Docket today, August 30th, and
5 NS Exhibit 4.0 Revised, likewise filed on E-Docket
6 today, August 30th.

7 And NS/PGL 30.0 filed on E-Docket July
8 13th, NS/PGL Exhibit 48, filed on E-Docket August
9 2nd.

10 JUDGE HILLIARD: Objections?

11 (No response.)

12 Hearing no objection, Exhibits 4.0
13 Revised or PGL and North Shore Exhibit 32 and Exhibit
14 48 will be admitted in the record.

15 (Whereupon, PGL/NS Exhibit Nos.
16 4.0, 32, and 48 were admitted
17 into evidence.)

18 MS. KLYASHEFF: The witness is available for
19 cross.

20 JUDGE HILLIARD: Any cross?

21 MS. LUSSON: Yes, your Honor.

22 JUDGE HILLIARD: All right.

1 CROSS EXAMINATION

2 BY

3 MS. LUSSON:

4 Q Good afternoon, Mr. Kuse. My name is a
5 Karen Lusson. I'm from the AG's office.

6 A Good afternoon.

7 Q I just have a couple questions related to
8 your direct testimony.

9 A Okay. Thank you.

10 Q Now, you prepared and are testifying about
11 the Company's gas sales forecast methodology; is that
12 right?

13 A Yes.

14 Q And that methodology is used by the
15 companies to, one, predict customer demand; is that
16 right for natural gas?

17 A Yes.

18 Q And that has an impact on Company's
19 forecast of revenues for the test year; is that also
20 right?

21 A Can you clarify?

22 Q Well, to the extent that the gas sales

1 forecast methodology is used to predict demand for
2 natural gas, it impacts the companies' forecast of
3 revenues for the test year?

4 A Yes.

5 Q And referring to Page 3 of your testimony,
6 beginning at Line 48, you indicate that you are using
7 methodologies to measure each customer segment
8 sensitivity to certain variables, and you list those
9 variables there?

10 A Yes.

11 Q So is it correct then that when the
12 companies are forecasting demand that they take into
13 account variables that might affect customer usage;
14 such as, weather, price, estimated energy efficiency,
15 investments, and socioeconomic trends?

16 A Okay, yes.

17 Q Now, with respect to weather, is it correct
18 that Company employs an examination of weather trends
19 over the last 12 years?

20 A Yes.

21 Q And that is used to establish what the
22 Company's hope will be a normalized level of demand

1 for each customer class?

2 A Yes.

3 Q Now, in the past, I think the first time

4 Company switch to the 12-year analysis versus the

5 30-year analysis was back in the 2007 rate case; is

6 that right?

7 A I don't know. That precedes me.

8 Q Okay. I just want to look at the variables

9 that are listed there and ask you some questions

10 about those.

11 So we talked about weather. That

12 again is the examination of weather trends over 12

13 years based on O'Hare Airport; is that right?

14 A Yes.

15 Q And that determines the number of heating

16 degree days for purposes of the companies' forecast

17 of demand?

18 A Yes.

19 Q Then price, is that a reference to the

20 price of natural gas?

21 A That is the price of the Integrys'

22 forecast. It includes a forecast of the price of

1 natural gas, true.

2 Q And I think on Page 10, you indicate that's
3 based on a NYMEX short-term forecast. Is that the
4 forecast.

5 A Yes.

6 Q And you look at the price of natural gas to
7 make assumptions about the elasticity of demand based
8 on price; is that right?

9 A No.

10 Q Why do you look at the price?

11 A What we do is -- what we look at is the
12 impact of price on the demand for gas given the
13 elasticity of demand for it.

14 The reason I clarify it is I'm not
15 establishing the elasticity of demand; I'm evaluating
16 the impact of the elasticity of demand.

17 Q Okay. So there is built-in to the model
18 assumptions about what the elasticities will be given
19 a certain price?

20 A The elasticity is fixed and the impact of
21 price, as price changes, the amount demanded would
22 vary.

1 Q Okay. Socioeconomic trends. What is
2 included in that analysis?

3 A Socioeconomic trends include -- I'm turning
4 to Page 7 of 17 of my forecast.

5 Q Okay.

6 A The graphic, socioeconomic trends include
7 home size -- I'm sorry -- income.

8 It also includes household size, the
9 number of people within a residence on average. It
10 includes their income, as well.

11 Q Okay. That's based on the SAE model there,
12 that's what is employed for purposes of analyzing
13 those trends?

14 A The SAE model includes those trends, yes.

15 Q And then also as a part of your forecasting
16 gas sales, you also look at anticipated trends in
17 customer numbers for purposes of evaluating the test
18 year; is that right?

19 A Yes.

20 Q And then is it correct that that test year
21 forecast is then used as the basis for designing the
22 companies' proposed rates in this case?

1 A I believe so.

2 Q Turning to Line 149 of your direct
3 testimony at Page 8 of your testimony.

4 There you are talking about the
5 Peoples Gas demand model. You indicate that it's
6 performed well historically and that the statistical
7 reliability is quite high for both the per customer
8 and number of customer equations.

9 Do you see that there?

10 A Yes, I do.

11 Q So when demand is more or less than
12 forecasted, is it largely a function of weather, in
13 your opinion?

14 A No, there are many factors that could
15 effect why a forecast would be higher or lower.

16 Q Would you say weather is a primary factor
17 impacting gas demand?

18 A Can you clarify that.

19 Q Weather, if the weather is excessively
20 cold, for example, then the companies' test year
21 forecast of demand for natural gas might be
22 understated in terms of as compared to actual demand

1 for natural gas?

2 A Yes, if it were for the entire year.

3 Q Again, the Company proposed a 2012 test
4 year, right?

5 A Yes.

6 Q And the Commission will set a revenue rate
7 of requirement in this case that may be more or less
8 than whatever Company's proposed; would you agree?

9 A I'm sorry. Could you repeat the question.

10 Q The Commission's order in this case will
11 establish a revenue requirement that may be more or
12 less or whatever close to or not so close to the
13 revenue requirement that companies requested in this
14 case?

15 A Yes.

16 Q And whatever the revenue requirement is,
17 the Company -- is it correct that the Company will
18 use billing determinants for the demand forecast that
19 serves as the basis for the tariffs that are filed?

20 In other words, you'll employ these
21 same methodologies and assumptions for purposes of
22 establishing billing determinants that are consistent

1 with the revenue requirement?

2 A I don't establish the cost of service.

3 My responsibilities are for
4 forecasting sales and the number of customers.

5 How that is incorporated, I'm not the
6 expert on, the mechanics of rate design.

7 Q Okay. But is it fair to say that your
8 forecast will be employed by the Company when it
9 files, in some way, those assumptions and all of the
10 assumptions that you describe in your direct
11 testimony will be employed in the Company's
12 establishment of tariffs to the extent that they're
13 trying to anticipate what demand will be?

14 A Yes, that's correct.

15 Q And, again, assuming that the Company uses
16 your forecasting methodology and all the assumptions
17 incorporated therein, that it will be reflective both
18 your and companies', as a whole, best estimation of
19 what the demand for natural gas will be, based on all
20 of the variables that companies believe will effect
21 the demand for gas going forward?

22 A Yes.

1 Q And then to the extent that that
2 methodology is used in the billing determinants,
3 those are reflected in the rates that the Company
4 files with the Commission?

5 MS. KLYASHEFF: Objection; the witness said he
6 is not familiar with how it flows into the rate
7 design.

8 MS. LUSSON: If he knows.

9 JUDGE HILLIARD: Okay. If you know.
10 If you know the answer, you can
11 answer. If you don't know the answer, then tell her
12 you don't know.

13 THE WITNESS: I don't know how that is
14 incorporated, the mechanics of how that's
15 incorporated.

16 BY MS. LUSSON:

17 Q Is it safe to assume, though, that the
18 Company, whatever the revenue requirement is set in
19 this case, that the Company is not going to throw out
20 your forecasting methodology for purposes of
21 anticipating demand that would be incorporated into
22 the billing determinants and start over?

1 A Yes.

2 Q And it's probably fair to assume that they
3 will incorporate your assumptions, I think you
4 testified, as they attempt to anticipate demand in
5 the process of establishing rates?

6 A Yes.

7 MS. LUSSON: Thank you, Mr. Kuse.

8 THE WITNESS: Thank you.

9 JUDGE HILLIARD: Redirect?

10 THE WITNESS: Thank you.

11 JUDGE HILLIARD: Redirect?

12 MS. KLYASHEFF: We have no redirect.

13 JUDGE HILLIARD: Thank you, Mr. Kuse.

14 THE WITNESS: Thank you.

15 JUDGE HILLIARD: You're excused.

16 (Witness excused.)

17 JUDGE HILLIARD: So are we done for the day?

18 (No response.)

19 We will be adjourned till 9:30 a.m.
20 tomorrow.

21

22

1 (Whereupon, these
2 proceedings were adjourned
3 to August 31, 2011 at the
4 hour of 9:30 a.m.)
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